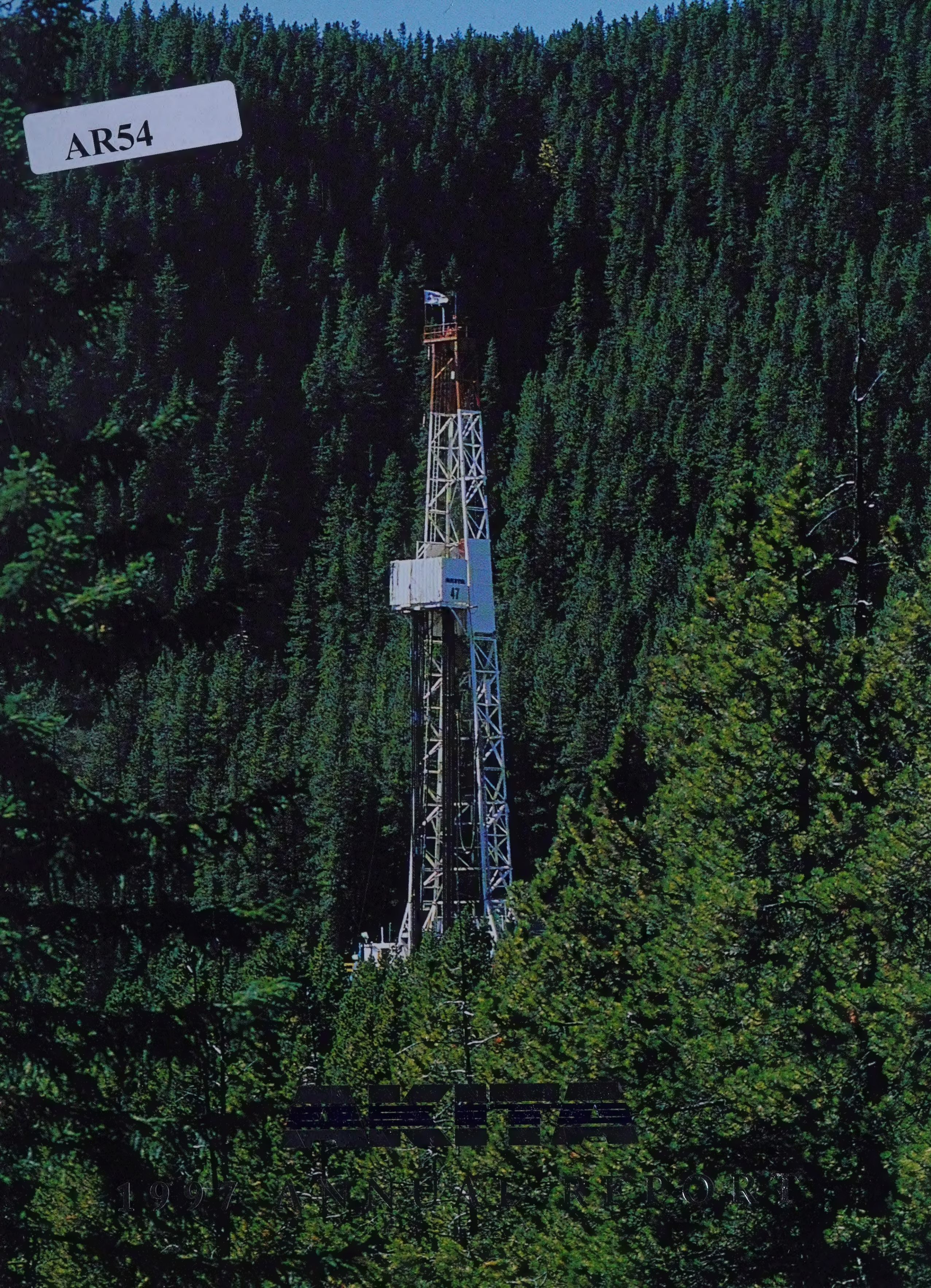

AKITA

1997 ANNUAL REPORT

Annual Meeting:

The Annual General Meeting of Shareholders will be held at 11:00 a.m. M.D.T. on Thursday, May 14, 1998 at the Calgary Convention Centre, 120 - 9 Ave. S.E., Calgary, Alberta. Shareholders and other interested parties are encouraged to attend.

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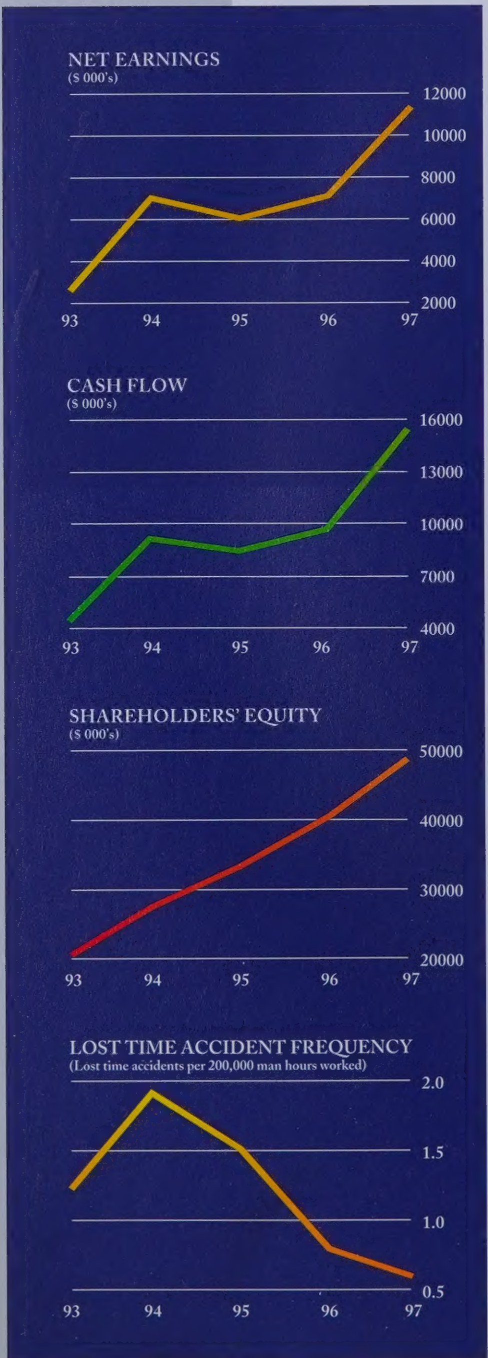
Cover:

Rig 47 drilling for natural gas near Nordegg, Alberta.

Corporate Profile

AKITA Drilling Ltd. is a premium oil and gas drilling contractor with operations throughout Western Canada. In addition to conventional drilling services, the Company is active in directional, horizontal and underbalanced drilling and provides specialized drilling services to a broad range of independent and multinational oil and gas companies. AKITA employs over 600 people operating 30 drilling rigs in all depth ranges.

1997 Achievements



AKITA achieved record profits in 1997 as a result of higher rig utilization, the addition of four new rigs and improved margins.

During 1997, internally generated cash flow was sufficient to totally fund the construction of four new rigs. AKITA's complement now stands at 30 rigs.

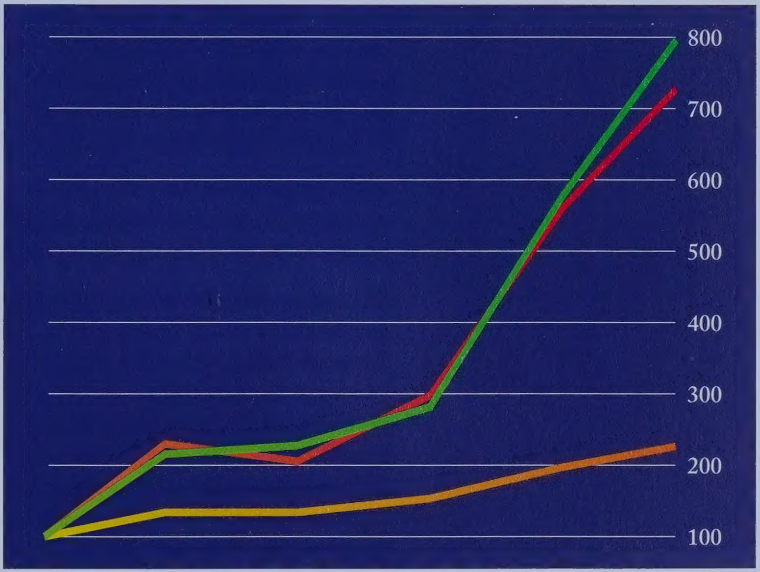
AKITA maintains a very strong balance sheet. Even after payment of an increased dividend, the 1997 contribution to Shareholders' Equity was the largest in the Company's history.

AKITA has consistently and significantly outperformed industry with respect to safety. For the fourth time in five years, AKITA's lost time accident frequency was less than one half of the industry average.

Share Performance

Five-Year Total Return on $100 Investment

The graph to the right compares the cumulative return over the last five years on the Class A Non-Voting Shares and Class B Common Shares of the Company (assuming a $100 investment was made on January 31, 1993 at the weighted average trading price for the month of January) with the cumulative total return of the TSE 300 Stock Index over the same period, assuming reinvestment of dividends.



	31 Jan 1993	31 Dec 1993	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997
AKITA Class A	100.00	215.57	227.55	281.44	576.74	796.06
AKITA Class B	100.00	230.06	205.52	297.54	560.16	727.60
TSE 300	100.00	134.21	133.97	153.44	196.93	226.43

		1993	1994	1995	1996	1997
Weighted average number of Class A and Class B Shares		8,088,100	9,097,005	9,120,005	9,231,205	9,497,563
Market prices for Class A Shares	High	$ 5.88	$ 5.25	$ 4.70	$ 11.00	$ 16.35
	Low	$ 0.90	$ 3.15	$ 2.30	$ 4.60	$ 8.60
	Close	$ 3.60	$ 3.80	$ 4.70	$ 9.50	$ 12.90
Volume		9,278,545	2,431,706	5,044,479	9,833,974	8,552,552
Market prices for Class B Shares	High	$ 6.00	$ 5.25	$ 4.85	$ 9.80	$ 16.30
	Low	$ 1.55	$ 3.40	$ 2.60	$ 5.00	$ 9.50
	Close	$ 3.75	$ 3.55	$ 4.85	$ 9.00	$ 11.50
Volume		303,170	89,888	69,585	39,746	22,584

LETTER TO THE SHAREHOLDERS

RONALD D. SOUTHERN

Chairman of the Board

During 1997, AKITA achieved record earnings of $11,363,000 or $1.20 per share on revenue of $89,100,000. Comparative figures for 1996 were $7,113,000 or $0.77 per share on revenue of $63,340,000. Cash flow from operations for the current year was $15,467,000 or $1.63 per share as compared to $9,713,000 or $1.05 per share in 1996.

AKITA's achievements during the past year have resulted from the Company's ongoing commitment to remain financially flexible, while maintaining the highest possible standards for its employees, equipment and service to its customers.

During the first five years of operations as a public company, AKITA has maintained a strong cash position. AKITA has chosen to maintain the financial flexibility to meet changing needs in the industry and capitalize on investment opportunities as they arise. As a result of the very positive environment in the industry during 1997, AKITA spent $15.4 Million on fixed asset additions, compared to $3.8 Million in 1996. The addition of four drilling rigs to help meet increased demand was the highlight of 1997's capital program, the largest in the Company's history. Nevertheless, AKITA's already strong financial position continued to improve throughout 1997, with the Company's cash balance exceeding $25 Million at year-end.

AKITA's ongoing determination to provide premium drilling services utilizing modern and efficient equipment, operated by well-trained and responsible employees is an all-encompassing approach.

Regularly scheduled equipment maintenance ensures that a portion of the rig fleet undergoes major upgrading each year. During 1997, this involved retrofitting one of the single sized rigs, as well as the completion of major maintenance projects on a large portion of the fleet.

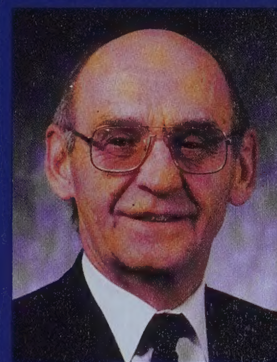
The development of highly skilled employees is of fundamental importance at AKITA. In 1997, training efforts were intensified by implementing a new training program to expand our base of qualified drillers.

Attention to safety training has earned AKITA one of the lowest accident frequencies in the industry. The 1997 lost time accident frequency of 0.60 accidents per 200,000 hours worked was the best performance in the Company's history. This surpasses the industry average of 2.45 (preliminary estimate provided by the Canadian Association of Oilwell Drilling Contractors). AKITA has successfully reduced its lost time accident frequency in the past five years by a factor of two.

AKITA's marketing program brings attention and focus to the needs of our customers. We take pride in our efforts to go the extra mile and look after the smallest detail for our clients. During 1997, as in each of the Company's previous years, AKITA achieved rig utilization rates in excess of industry average.

AKITA's Board of Directors and senior management have been actively engaged throughout 1997 in the development of detailed succession plans. Shareholders should take great confidence in the depth, scope and experience the AKITA management team is able to bring to its current and future operations.

Record Earnings and Cash Flow Highlighted AKITA Drilling Ltd.'s Achievements for 1997.



John B. Hlavka

President

Concerns regarding oil and gas drilling prospects as a result of fluctuating crude oil prices are currently being expressed by market observers. Although some of the short term impact of lower oil prices should be offset by increased natural gas drilling, it appears that the record level of drilling achieved in the Western Canadian Sedimentary Basin for 1997 may not be repeated in 1998. As a result of these anticipated conditions, AKITA has placed nearly 50% of its 30 rigs on contracts, each having a duration of one or more years. These contracts provide guarantees by AKITA's customers to operate the rigs for a specified number of days during the contract periods.

Future prospects remain positive for the company. AKITA's commitment, experience and performance will allow it to capitalize on opportunities in any phase of the drilling cycle. The utilization of premium equipment, managed and operated by highly qualified people, combined with the flexibility that its strong balance sheet brings, provides AKITA with the fundamentals to maintain and enhance shareholder values.

In November 1997, the AKITA Board of Directors approved the payment of its first quarterly dividend at a rate of $0.06 per share. This represents a 20% dividend increase, calculated on an annualized basis. Previous dividends were paid on a semi-annual basis.

It is with regret that we advise of the recent death of Cameron S. Richardson, following a long and courageous battle with cancer. Cam was the longest serving director of the Company, having served since 1974 when the business was known as Thompson Drilling Ltd. In time, through acquisition, the business evolved to become ATCO Drilling and finally AKITA Drilling Ltd. Cam played a crucial role in every major development in the evolution of the Company. His extraordinary contributions to our deliberations, including his great sense of humour, will be missed by all.

We were also saddened by the sudden death last year of an outstanding employee and friend, Douglas Zboya. A mechanical engineer by profession, Doug's hard work and dedication earned him respect from his co-workers and clients. Doug was highly involved in the development of AKITA's newest rigs.

We wish to thank the Board of Directors for their wise counsel and guidance, AKITA's employees for their dedication and hard work, and our shareholders for their support and confidence in the Company.

On behalf of the Board of Directors,

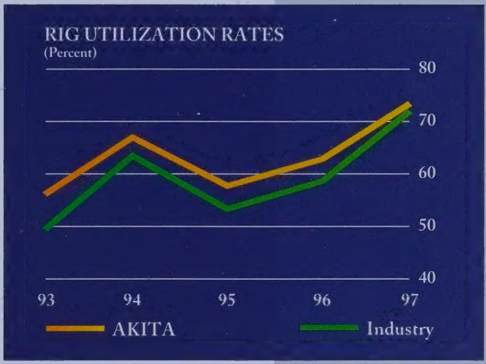
Ronald D. Southern
Chairman of the Board

John B. Hlavka
President

Review of Operations

AKITA endeavours to protect the pristine areas in which it works.

DURING 1997, AKITA DEVELOPED VARIOUS INITIATIVES TO STRENGTHEN RELATIONSHIPS WITH CUSTOMERS.



AKITA's business strategy is driven by a commitment to create shareholder value through the provision of excellent drilling equipment and high quality service. During 1997, AKITA drilled 1,358 wells for a total of 1,262,000 metres or approximately 8.3 percent of the total wells drilled in Western Canada.

With the marked upturn in drilling activity during 1997, AKITA's utilization rate, while still exceeding the industry average, more closely approximated the industry average than in previous years. The following table highlights AKITA's utilization rates for the past five years:

RIG UTILIZATION RATES (PERCENT)

	1997	1996	1995	1994	1993
AKITA	**73.5**	62.9	57.8	67.0	56.1
Industry	**72.1**	58.7	53.4	63.5	49.4

AKITA operates a well-maintained, diversified and efficient fleet of rigs. During 1997, AKITA developed various initiatives to strengthen relationships with customers. Notably, the Company constructed four new rigs, increasing the fleet to 30 rigs by year-end. Each of these new rigs is working under a three or four year contract with a financially sound customer. AKITA is assured of a stable income stream from these rigs and the customers to which these rigs are contracted are guaranteed a secure rig supply to service their needs. In addition to multi-year contracts on these four new rigs, AKITA entered into contracts having terms of one or more years for a large portion of the remaining fleet.

The following table compares the December 31, 1997 range of drilling capabilities for AKITA's fleet to that of the industry:

Drilling Depth Capability

	AKITA		Industry	
Depth Capacity	No. of Rigs	% of Fleet	No. of Rigs	% of Fleet
0 to 950 metres	8	26%	17	3%
951 to 1,850 metres	5	17%	122	23%
1,851 to 2,450 metres	5	17%	191	35%
2,451 to 3,050 metres	6	20%	109	20%
3,051 to 3,700 metres	0	0%	55	10%
3,701 to 6,700 metres	6	20%	50	9%
Total	**30**	**100%**	**544**	**100%**

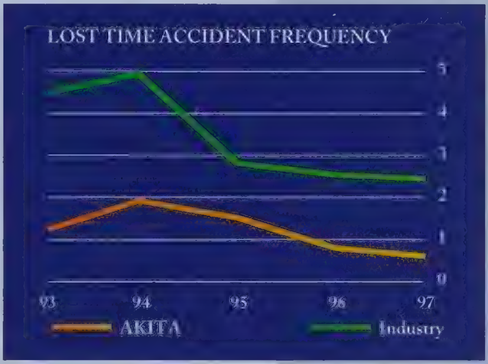
By operating its mix of rigs, AKITA participates in all major market segments. The large percentage of both shallow and deep capacity rigs assures a particularly favorable exposure to shallow gas drilling which is typical of southern Alberta and Saskatchewan, as well as deep gas drilling which occurs in the foothills of Alberta and in British Columbia.

AKITA is strongly committed to the ongoing safety of its employees and continually achieves one of the safest working records in the Canadian drilling industry. The Company considers ways to eliminate or reduce hazards in the design of equipment and through the execution of standardized operating procedures. AKITA's lost time accident frequency, which represents lost time accidents per 200,000 hours worked, has been consistently and significantly better than the industry average as demonstrated in the following table:

Lost Time Accident Frequency

	1997	1996	1995	1994	1993
AKITA	**0.60**	0.80	1.52	1.92	1.23
Industry	**2.45**	2.54	2.82	4.93	4.49

TRAINING IS OF FUNDAMENTAL IMPORTANCE IN AKITA'S PERFORMANCE IN THE AREA OF SAFETY AND OPERATIONS.



Field employees complete extensive safety training and must meet current industry certifications. During 1997, AKITA augmented its training efforts with a new program to increase its pool of qualified driller personnel. In addition, the Company has implemented a new group RRSP in order to encourage the retention of long term employees.

Responsibility for the environment is a commitment that AKITA has made to its employees, customers and shareholders. The Company continually monitors products used and procedures followed in its operations as well as changes in regulations to ensure responsible management of environmental issues. AKITA's comprehensive environmental programs have been in place for several years and are continually monitored and improved, as required.

While the first quarter of 1998 continued to provide record activity levels, the recent fluctuations of oil and natural gas prices is a growing concern for management of AKITA Drilling Ltd. in assessing AKITA's outlook for the remainder of 1998. However, longer-term fundamentals remain positive. World oil consumption has increased during the past decade. Although future oil consumption is difficult to predict, AKITA expects that there will continue to be further increases in demand. With respect to natural gas, AKITA anticipates increased production from the Western Canadian Sedimentary Basin arising from major pipeline expansion that is scheduled to occur starting late 1998. These fundamentals should continue to provide the basis for strong demand for AKITA's drilling services.

Rig 12 is one of AKITA's four rigs built during 1997.

Management's Discussion And Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with AKITA's audited financial statements and related notes contained in this annual report.

Fleet and Utilization

Utilization rates are a key statistic for the drilling industry since they measure sales volume and influence pricing. During 1997, AKITA was able to achieve utilization of 73.5% which was 10.6 percentage points higher than the previous year and 1.4 percentage points higher than the 1997 industry average. No single market segment dominated 1997 drilling activity, with shallow and deep gas, and conventional and heavy oil wells all figuring prominently in the year's final figures for both total wells and total meterage drilled.

The following table highlights AKITA's 1997 utilization rates for all depth capacities compared to 1996 and to industry average.

Utilization (Percent)

Depth Capacity		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	AKITA Average	Industry Average
0 to 950 metres	**1997**	**79.2**	**46.0**	**74.1**	**61.7**	**65.2**	**68.6**
	1996	72.3	36.3	63.5	74.9	61.8	51.9
951 to 1,850 metres	**1997**	**74.6**	**61.4**	**82.6**	**75.0**	**74.0**	**72.5**
	1996	63.2	47.3	75.5	71.0	64.8	51.4
1,851 to 2,450 metres	**1997**	**78.4**	**61.8**	**77.4**	**71.8**	**72.3**	**73.0**
	1996	80.8	29.5	61.5	68.9	60.2	60.7
2,451 to 3,050 metres	**1997**	**80.4**	**70.5**	**80.8**	**82.6**	**78.6**	**72.5**
	1996	81.7	43.4	72.9	72.5	67.7	56.4
3,051 to 6,700 metres	**1997**	**86.1**	**65.7**	**85.1**	**82.0**	**79.7**	**75.3**
	1996	64.0	63.0	57.0	59.8	60.9	45.0
Total	**1997**	**80.4**	**59.8**	**79.8**	**73.9**	**73.5**	**72.1**
	1996	72.5	44.1	64.9	69.6	62.9	58.7

The Canadian drilling industry is seasonal with activity building in the fall and peaking during the winter months. Northern transportation routes become available once areas with muskeg conditions freeze sufficiently to allow the movement of rigs and other heavy equipment. The peak Canadian drilling season ends with "spring breakup", at which time drilling operations are curtailed due to seasonal road bans (temporary prohibitions on road use) and restricted access to agricultural land.

Horizontal drilling continues to be a distinct and growing market segment for the contract drilling industry. This form of drilling, in comparison to conventional drilling practices, exposes more of the oil and gas bearing geological formation to the well bore, and is particularly effective for heavy oil reservoirs, thin production zones and thicker zones with marginal permeability. AKITA owns specialized equipment, including hevi-wate drill pipe, 800 and 1,000 horsepower mud pumps and specialized mud cleaning equipment, to enhance its capabilities for horizontal drilling.

Revenue and Expenses

Revenue increased to $89,100,000 or $12,093 per operating day during 1997 from $63,340,000 or $10,494 per operating day during 1996, as a result of both higher utilization and day rates. Operating and maintenance costs vary directly with revenue and amounted to $58,186,000 or $7,897 per operating day during 1997 compared with $44,472,000 or $7,368 per operating day for the prior year.

AKITA depreciates its rigs using the unit of production method based on an estimated life of 2,000 operating days per rig. Depreciation increased to $4,247,000 during 1997 from $2,547,000 during 1996. This increase resulted from a 22% increase in operating days, an increase in the average cost base of the fleet arising from increases to the overall cost base from the construction of four new rigs in 1997 and ongoing major upgrades. Assets other than rigs are depreciated over their estimated remaining lives using a straight line or declining balance basis of calculation.

Selling and administrative expenses were 7.5% of total revenue in 1997 compared to 8.1% of total revenue in 1996. The single largest component was salaries and benefits, which accounted for 68% of these expenses (64% in 1996).

Other income decreased to $1,440,000 in 1997 from $1,673,000 in 1996. The beneficial impact of having increased cash balances in 1997 was more than offset by lower interest rates which resulted in decreased interest income. In addition, gains on disposals of redundant assets were lower in 1997 than during the previous year.

Income tax expense increased to $10,058,000 from $5,728,000 due to higher pretax earnings. The average effective income tax rate increased to 47% in 1997 from 45% in 1996. Recent Revenue Canada assessing practices for the contract drilling and several other industries with respect to the deductibility of crew subsistence allowances have prompted AKITA to proactively record a reserve to satisfy any adverse impact of those practices. Management is currently monitoring ongoing developments relating to Revenue Canada's appeal of a court ruling on this issue.

Net Earnings and Cash Flow

Net earnings increased to $11,363,000 or $1.20 per Class A Non-Voting and Class B Common Share for 1997 from $7,113,000 or $0.77 per share in 1996. Cash flow from operations increased to $15,467,000 or $1.63 per share in 1997 from $9,713,000 or $1.05 per share in 1996. The 1997 results represent record earnings and cash flow for AKITA, attributable largely to increased drilling activity and higher dayrates as compared to 1996.

Liquidity and Capital Resources

As a result of AKITA's strong financial position, capital expenditures were funded entirely out of internally generated cash flow for both 1997 and 1996. At December 31, 1997, AKITA had $23,883,000 in working capital including $25,273,000 in cash, compared to $26,844,000 and $21,392,000, respectively, for the previous year.

In addition to cash reserves, AKITA has a $5,000,000 bank operating line of credit at prime interest rates secured by accounts receivable. The total amount of financing available varies with receivable balances. This line was not being used at December 31, 1997. As a result of current and anticipated cash flows from operations, AKITA expects to retain a positive net cash position throughout 1998. AKITA has no long term debt.

Dividends

During 1997, AKITA declared and paid dividends totalling $0.20 per share ($1,900,000) to Class A Non-Voting and Class B Common shareholders compared to $0.10 per share ($920,000) for 1996. The payment of any dividend is at the discretion of the Board of Directors and depends upon the financial condition of AKITA Drilling Ltd. and other factors.

Capital Assets

Net fixed asset additions were $15,372,000 in 1997 compared with $3,760,000 in the previous year. The highlight of 1997's capital expenditure program was the construction of four new rigs at a combined cost of $10,609,000. These rigs have capacities ranging from 1,400 to 2,400 metres. AKITA maintained its commitment to achieving the highest operational standards in the industry with the expenditure of $3,139,000 for upgrading and modifying Rig 5 as well as rig equipment expenditures for other rigs. Tubulars accounted for $1,537,000 of 1997 expenditures. The balance of capital expenditures related to the purchase of vehicles and other equipment.

AKITA's net book values for rigs and related equipment are significantly lower than current replacement costs. At year-end, the average carrying value of AKITA's rig fleet was less than one half of the least expensive rig addition for 1997. AKITA's conservative depreciation policy is designed to ensure that the carrying values for its assets will not be overstated at any point in the drilling cycle.

Investments

AKITA owns 430 of the 4,644 shares issued and outstanding in Western Rock Bit Company Limited, a private company. In March 1998, Western Rock Bit Company Limited sold substantially all of its assets to Baker Hughes Inc. of Texas for approximately $44.6 Million. Western Rock Bit Company Limited's Board of Directors has not yet approved the ultimate use of proceeds from this sale.

Business Risks and Risk Management

The drilling industry is cyclical and the business of AKITA is directly affected by fluctuations in the level of exploration and development activity carried on by its customers. Customer activity is, in turn, directly affected by a variety of factors, including world oil and North American natural gas prices, access to capital markets and government policies. Any prolonged or significant decrease in energy prices or economic activity, or adverse change in government regulation could have a significant negative impact on exploration and development drilling activity in Canada. AKITA's marketing program emphasizes the continuous development of long term relationships with a core base of customers who maintain ongoing drilling programs during all phases of the economic cycle. During 1997 and continuing into 1998, approximately one half of the rigs in AKITA's fleet have been committed under long term contracts requiring payment whether or not these rigs are active.

The success of AKITA also depends on other factors, including competition and operational and environmental risks.

AKITA manages its risks in these areas by:

- *employing well trained, experienced and responsible employees*
- *improving the skills of its employees through training programs*
- *maintaining an efficient fleet of rigs through a rigorous ongoing maintenance program*
- *constantly upgrading the rig fleet to ensure it is modern and efficient*
- *maintaining comprehensive insurance policies with respect to its operations*
- *ensuring that all employees comply with clearly defined safety standards*
- *reducing environmental risk through the implementation of industry leading standards, policies and procedures*

AKITA is subject to federal, provincial and local environmental protection laws concerning emissions to the air, discharges to surface and subsurface waters and the handling, use, emission and disposal of materials and wastes from drilling operations. In Alberta, environmental compliance is generally governed by the Alberta Environmental Protection and Enhancement Act.

AKITA is committed to preserving and protecting the environment and minimizing the discharge of deleterious materials into the environment in accordance with environmental protection laws and regulations. AKITA verifies compliance with these laws and regulations as well as its own well developed and closely monitored internal procedures through a program of regular environmental audits. Some risk of unintentional breaches of environmental protection laws and potential liability is occasionally inherent in particular operations of the industry.

AKITA does not expect that environmental protection laws and regulations will affect its operations differently from other responsible companies in the contract drilling industry. Ongoing capital and operating costs of compliance with existing laws and regulations have not been quantified but are not expected to have a material impact on the earnings or competitive position of AKITA.

AKITA maintains comprehensive insurance policies with respect to its operations in amounts that it believes are adequate and in accordance with industry standards. AKITA's liability with respect to its well-site activities is limited by provisions of its agreements with oil and gas well operators that either limit AKITA's liability or provide for indemnification of AKITA against certain risks, in the absence of negligence. As a matter of policy, AKITA ensures blowout insurance has been obtained by its customers and thereby reduces its related risk.

Rig 16 mast under construction in Nisku, Alberta.

Year 2000

AKITA has begun the process of reviewing its computer systems to assess potential problems and costs associated with the year 2000. The problem results from computer systems and software applications that only use the last two digits of the year. On a worldwide basis, it is anticipated that many systems and programs will not function properly in the year 2000.

Although computers are important tools for AKITA, particularly in the preparation and analysis of information, the Company's reliance on computers is not significant. The Company has identified two major areas for review: (1) financial and technical systems and networks and (2) telephone systems and equipment. Testing of the former item, including software supported by third parties, was successfully completed in 1997. AKITA plans to complete its investigations in 1998. All costs associated with this project will be expensed as incurred and are not expected to have a material effect on the results of the Company.

Future Outlook

The drilling industry is cyclical and certain key factors which have an impact on AKITA's results are beyond management's control. AKITA is exposed to the effects of fluctuating oil and gas prices and changes in the exploration and development budgets of its customers.

During 1997, the drilling industry experienced record activity levels. AKITA anticipates some moderation in activity levels during 1998. Nevertheless, management anticipates continued strong financial performance for the Company. The current industry forecast prepared by the Canadian Association of Oilwell Drilling Contractors projects over 16,000 wells to be drilled in 1998, compared to 16,484 wells in 1997. In light of currently low commodity prices, it is management's view that this forecast will not likely be achieved.

Management anticipates a decrease in oil well drilling for 1998, particularly for heavy oil, as a result of the currently depressed world oil prices. However, AKITA expects demand for its rigs will nevertheless remain strong since many of the Company's core customers have entered into longer term contracts with AKITA and will be shifting their emphasis to natural gas exploration and development. The varied depth capacities of AKITA's rigs provide favourable exposure to all segments of the oil and gas drilling market. Prospects for continued horizontal drilling, particularly using underbalanced technologies, remain positive as producers continually seek the best available techniques to enhance production and profitability. AKITA's past investment in horizontal equipment and its experience in single and multi-leg horizontal wells, and underbalanced and overbalanced applications, will help to ensure that AKITA maintains an important presence in this market segment.

Management's Responsibility for Financial Reporting

The accompanying financial statements of AKITA Drilling Ltd., Management's Discussion and Analysis and other information relating to the organization contained in this Annual Report are the responsibility of management and have been approved by the Board of Directors. The financial statements have been prepared in accordance with accounting policies detailed in the notes to the financial statements and are in conformity with accounting principles generally accepted in Canada using methods appropriate for the industry in which the Company operates. Where necessary, estimates of transactions and operations that were incomplete at year end have been made by management. Financial information throughout the Annual Report is consistent with the financial statements.

Management ensures the integrity of the financial statements by maintaining systems of internal control. These systems are designed to provide assurance that assets are safeguarded from loss or unauthorized use, that transactions are properly recorded and that the financial records are reliable for preparing the financial statements.

Price Waterhouse, the Company's independent auditors, have conducted an examination of the financial statements, which included an evaluation of internal controls to the extent they considered necessary, and have had full access to the Audit Committee.

The Board of Directors, through its Audit Committee comprised of three non-management directors, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management and the independent auditors to discuss auditing and financial matters and to gain assurance that management is carrying out its responsibilities.

J Hlavka. | Murray Roth.
John B. Hlavka
President

Murray J. Roth
Secretary-Treasurer

Auditors' Report

To the Shareholders of AKITA Drilling Ltd.

We have audited the balance sheets of AKITA Drilling Ltd. as at December 31, 1997 and 1996 and the statements of earnings and retained earnings and changes in cash position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and changes in its cash position for the years then ended in accordance with generally accepted accounting principles.

Price Waterhouse
Chartered Accountants
Calgary, Alberta

March 6, 1998

Balance Sheet

(Dollars in thousands)

December 31		1997	1996
Current assets			
Cash		$ 25,273	$ 21,392
Accounts receivable		20,856	15,844
Other		755	462
		46,884	37,698
Investments	Note 1	364	364
Capital assets	Note 2	26,699	15,541
		$ 73,947	$ 53,603
Current liabilities			
Accounts payable and accrued liabilities		$ 18,705	$ 10,416
Income taxes payable		4,296	438
		23,001	10,854
Deferred income taxes		2,179	2,289
Share capital	Note 3	18,876	18,814
Retained earnings		29,891	21,646
		48,767	40,460
		$ 73,947	$ 53,603

Approved by the Board

DALE R. RICHARDSON

Director

C. PERRY SPITZNAGEL

Director

Statement of Earnings and Retained Earnings

(Dollars in thousands, except per share)

Year Ended December 31		1997	1996
Revenue		$ 89,100	$ 63,340
Costs and expenses			
Operating and maintenance		58,186	44,472
Depreciation		4,247	2,547
Selling and administrative		6,686	5,153
		69,119	52,172
		19,981	11,168
Other income	Note 4	1,440	1,673
Earnings before income taxes		21,421	12,841
Income taxes	Note 5		
Current		10,168	5,472
Deferred		(110)	256
		10,058	5,728
Net earnings		11,363	7,113
Retained earnings, beginning of year		21,646	15,290
Dividends		(1,900)	(920)
Refundable dividend tax		39	163
Cancellation of stock options		(1,257)	-
Retained earnings, end of year		$ 29,891	$ 21,646
Earnings per Class A and Class B Share			
Basic		$ 1.20	0.77
Fully diluted		$ 1.18	0.73

STATEMENT OF CHANGES IN CASH POSITION

(Dollars in thousands, except per share)		
Year ended December 31	**1997**	1996
Operating activities		
Net earnings	$ 11,363	$ 7,113
Non-cash items included in earnings		
Depreciation	4,247	2,547
Deferred income taxes	(110)	256
Gain on disposal of capital assets	(33)	(203)
Cash flow from operations	15,467	9,713
Decrease (increase) in non-cash working capital	6,842	(1,569)
	22,309	8,144
Financing activities		
Issue of Class A Non-Voting shares	62	716
Dividends paid	(1,900)	(920)
Cancellation of stock options	(1,257)	-
	(3,095)	(204)
Cash available for investing	19,214	7,940
Investing activities		
Capital expenditures	(15,372)	(3,760)
Refundable dividend tax	39	163
	(15,333)	(3,597)
Increase in cash	3,881	4,343
Cash position, beginning of year	21,392	17,049
Cash position, end of year	$ 25,273	$ 21,392

Cash flow from operations per Class A and Class B Share		
Basic	$ 1.63	$ 1.05
Fully diluted	$ 1.61	$ 1.00

Notes to Financial Statements

December 31, 1997

(tabular amounts in thousands of dollars)

1. Summary of Significant Accounting Policies

Revenue recognition on contracts

Revenue resulting from the supply of contracted services is recorded by the percentage of completion method. Any anticipated loss is provided for in its entirety when the estimated loss is identified.

Depreciation

Drilling rigs are depreciated using the unit of production method based on an initial estimated life of 2,000 days per rig.

Replacement drill pipe and other ancillary drilling equipment are depreciated using a straight-line basis at rates varying from 6% to 12.5% per annum.

Buildings, furniture, fixtures and equipment are depreciated using the declining balance method at rates varying from 10% to 25% per annum.

Investments

The Company records ownership of its investment in Western Rock Bit Company Limited, a private company, at cost. The Company also has an investment in a Joint Venture, AKITA Equtak Drilling Ltd. which it records using the proportionate method of consolidation. The joint venture was inactive during 1997 and 1996.

2. Capital Assets

	1997		1996	
	Cost	**Accumulated Depreciation**	Cost	Accumulated Depreciation
Drilling rigs and related equipment	**$36,830**	**$11,055**	$21,756	$7,143
Other	**1,911**	**987**	1,674	746
	$38,741	**$12,042**	$23,430	$7,889
Net Book Value	**$26,699**		$15,541	

3. Share Capital

Authorized

An unlimited number of Series Preferred Shares, issuable in series, designated as First Preferred Shares

An unlimited number of Series Preferred Shares, issuable in series, designated as Second Preferred Shares

An unlimited number of Class A Non-Voting Shares

An unlimited number of Class B Common Shares

Issued

	Class A Non-Voting		Class B Common		Total	
	Number of Shares	Consideration	Number of Shares	Consideration	Number of Shares	Consideration
December 31, 1995	8,291,694	$16,723	832,927	$1,375	9,124,621	$18,098
Stock option plans	344,000	716	-	-	344,000	716
Conversions Class B to Class A	2,025	3	(2,025)	(3)	-	-
December 31, 1996	8,637,719	17,442	830,902	1,372	9,468,621	18,814
Stock option plans	30,900	62	-	-	30,900	62
Conversions Class B to Class A	950	2	(950)	(2)	-	-
December 31, 1997	**8,669,569**	**$17,506**	**829,952**	**$1,370**	**9,499,521**	**$18,876**

Each Class B Common Share may be converted into one Class A Non-Voting Share at the shareholder's option. If a takeover bid is made for the Class B Common Shares, holders of Class A Non-Voting Shares are entitled, in certain circumstances, for the duration of the bid, to exchange each Class A Non-Voting Share for one Class B Common Share for the purpose of depositing the resulting Class B Common Shares pursuant to the terms of the takeover bid. The two classes of shares rank equally in all other respects.

The Company has established a stock option plan for directors, officers, key employees and other persons providing services to the Company. At December 31, 1997, 105,000 options to acquire an equivalent number of Class A Non-Voting Shares were outstanding. The options are exercisable cumulatively over periods of up to 10 years from the date of grant at prices ranging from $0.76 to $4.55 per share. These options expire at various dates to 2004.

Basic earnings per share and cash flow per share have been calculated on the basis of the weighted average number of Class A Non-Voting and Class B Common Shares outstanding during the year. Fully diluted earnings per share and fully diluted cash flow per share have been calculated using the weighted average number of Class A Non-Voting and Class B Common Shares that would have been outstanding had all of the stock options been exercised at the beginning of the year.

4. Other Income

	1997	1996
Interest	$977	$1,040
Dividends	430	430
Gain on sale of capital assets	33	203
	$1,440	$1,673

5. Income Taxes

The income tax provision differs from that which would be computed using the statutory rates. A reconciliation of the differences is as follows:

	1997	1996
Earnings before income taxes	**$21,421**	$12,841
Income tax at statutory rate of 45%	**9,639**	5,778
Add (Deduct):		
Dividend income	**(193)**	(193)
Other	**612**	143
Income tax provision	**$10,058**	$ 5,728

Included in the category "Other" is a provision for potentially non-deductible meal costs paid to employees at out of town work sites.

6. Related Party

The Company is affiliated to the ATCO Group of companies through its majority shareholder. The accompanying table summarizes transactions and year end balances with those affiliates. These transactions were in the ordinary course of business and were considered to be at fair market value.

	1997	1996
Revenue	**$ -**	$ -
Purchases		
Capital	**410**	322
Operating	**82**	116
Year end accounts receivable	**-**	-
Year end accounts payable	**183**	134

7. Pension

The Company has a defined contribution pension plan which covers substantially all of its employees. Under the provisions of the plan, the Company contributes 5% of regular earnings for eligible employees on a current basis.

8. Financial Instruments

The Company's financial assets and liabilities as at December 31, 1997 included cash, accounts receivable, accounts payable and the 9.3% equity investment in Western Rock Bit Company Limited (WRB). During the year, AKITA did not hold or issue any derivative financial instruments.

The credit risk associated with accounts receivable is considered to be low since substantially all counterparties are well established and financed oil and gas companies.

Due to the current nature of cash, accounts receivable and accounts payable, fair value of these items is considered to be equal to book value.

The Company's investment in WRB, a private company, is carried at cost. In March 1998, the Company sold substantially all of its assets to Baker Hughes Inc. of Texas for approximately $44.6 Million. WRB's Board of Directors has not yet determined the ultimate use of proceeds from this sale.

9. Commitment

The Company leases its office space at an annual cost of approximately $153,000. Lease expiry will occur in 2005.

Financial Review from the Commencement of Operations

(Dollars in thousands, except per share)

	1997	1996	1995	1994	1993
Summary of Operations					
Revenue	**$ 89,100**	$ 63,340	$ 57,429	$ 61,498	$ 44,142
Earnings before income taxes	**$ 21,421**	$ 12,841	$ 11,200	$ 12,401	$ 4,751
Income taxes	**$ 10,058**	$ 5,728	$ 5,147	$ 5,377	$ 2,166
Net earnings	**$ 11,363**	$ 7,113	$ 6,053	$ 7,024	$ 2,585
As a percentage of average Shareholders' Equity	**25.5%**	19.3%	19.8%	29.1%	15.5%
Earnings per Class A and Class B Share	**$ 1.20**	$ 0.77	$ 0.66	$ 0.77	$ 0.32
Cash flow from operations	**$ 15,467**	$ 9,713	$ 8,475	$ 9,184	$ 4,458
As a percentage of average Shareholders' Equity	**34.7%**	26.3%	27.8%	38.1%	26.8%
Cash flow per Class A and Class B Share	**$ 1.63**	$ 1.05	$ 0.93	$ 1.01	$ 0.55
Financial position at year end					
Working capital	**$ 23,883**	$ 26,844	$ 20,932	$ 16,351	$ 10,675
Current ratio	**2.04:1**	3.47:1	3.28:1	2.29:1	2.38:1
Total assets	**$ 73,947**	$ 53,603	$ 44,610	$ 41,999	$ 29,937
Shareholders' equity	**$ 48,767**	$ 40,460	$ 33,388	$ 27,574	$ 20,650
Per share	**$ 5.13**	$ 4.27	$ 3.66	$ 3.03	$ 2.27
Other					
Capital expenditures	**$ 15,372**	$ 3,760	$ 3,655	$ 3,408	$ 1,737
Depreciation	**$ 4,247**	$ 2,547	$ 2,206	$ 1,986	$ 1,254

Corporate Information

Directors

William L. Britton, Q.C.
Partner, Bennett Jones Verchere,
Deputy Chairman of the
Board of the Corporation,
Calgary, Alberta

Linda A. Heathcott
Executive Vice President, Spruce Meadows,
President, Team Spruce Meadows Inc.,
Calgary, Alberta

John B. Hlavka
President of the Corporation,
Calgary, Alberta

Dale R. Richardson
Vice President, Sentgraf Enterprises Ltd.,
Calgary, Alberta

Margaret E. Southern, O.C., L.V.O., LL.D.
President, Spruce Meadows,
Calgary, Alberta

Nancy C. Southern
Deputy Chairman, ATCO Ltd. and
Canadian Utilities Limited,
Calgary, Alberta

Ronald D. Southern, C.M., C.B.E., LL.D.
Chairman of the Board and Chief
Executive Officer, ATCO Ltd.
and Chairman of the Board and
Chief Executive Officer, Canadian
Utilities Limited, Chairman of the
Board of the Corporation,
Calgary, Alberta

C. Perry Spitznagel
Partner, Bennett Jones Verchere,
Calgary, Alberta

Officers

John B. Hlavka
President

Robert J. Hunt
Vice President, Sales and Marketing

Murray J. Roth
Secretary-Treasurer

Karl A. Ruud
Vice President, Operations

Head Office

AKITA Drilling Ltd.
#1110, 505-3rd Street S.W.
Calgary, Alberta T2P 3E6
(403) 292-7979

Banker

Alberta Treasury Branches,
Calgary, Alberta

Counsel

Bennett Jones Verchere,
Calgary, Alberta

Auditors

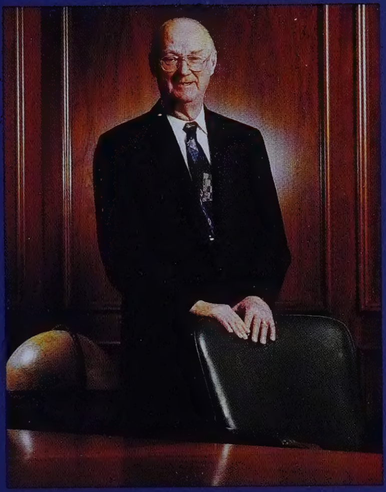
Price Waterhouse,
Calgary, Alberta

Registrar

CIBC Mellon Trust Company,
Calgary and Toronto
1-800-387-0825

Share Symbol/TSE

Class A Non-Voting (AKT.A)
Class B Common (AKT.B)



In Memorium
Cameron S. Richardson
1932 - 1998

It is with regret that we advise of the recent death of Cameron S. Richardson, at the age of 65, following a long and courageous battle with cancer. Cam was the longest serving director of the Company, having served since 1974 when the business was known as Thompson Industries Ltd. He was greatly respected by both his colleagues and the Canadian financial community. Cam played a crucial role in every major development in the evolution of the Company. His extraordinary contributions, including his great sense of humour, will be missed by all.